CIA/OER/S-06818-75 INVOLUNTARY REDUCTIONS MAR 75

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

[redacted] CIA/OER/S-06818-75

4 March 1975

MEMORANDUM FOR: The Honorable Thomas O. Enders
Assistant Secretary for Economic
and Business Affairs
Department of State

SUBJECT : Involuntary Reductions in
Oil Output

[redacted]

1. Virtually all OPEC countries have reduced oil output in recent months. Some have cut production on their own initiative, while others have acquiesed in cuts made by the international oil companies. In a few cases, however, the companies cut far deeper than anticipated resulting in government demands that the companies increase liftings.

2. All of the sharpest production cuts came about because the producing government's oil prices were significantly higher and out of line with the OPEC price system based on Saudi benchmark crude. In recent weeks these countries have adjusted their prices by lowering or eliminating quality and transportation differentials. These

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countries now expect the companies to increase liftings. If the companies fail to increase liftings to acceptable levels, the governments will be unhappy indeed and can be expected to raise the cry for increased output in OPEC councils. Since in today's market increases in one OPEC country can only occur if offset by decreases in another, the issue can avoid becoming contentious only if one or more of the major producers -- chiefly Saudi Arabia, Iran, Kuwait and Venezuela -- are willing to forego revenues and volunteer cuts in their own production. We think that the collective demands for higher output by some OPEC countries will not likely exceed 1 million b/d and that the major producers would be willing to share this cutback. OPEC as a group also will have to cut back 1-3 million b/d from present levels by late summer.

3. The following countries have been forced to cut output below desired levels in recent months:

Abu Dhabi let out the biggest complaint when its production was cut from 1,220,000 b/d in December to 820,000 b/d in January. The government reduced the sulfur premium on its best crude by 40¢ and has received an OPEC sanction to lower the gravity differential by another 15¢. The government probably would be satisfied with production at last December's level. There is no confirmation that production will soon return to this level.

Algeria, facing declining demand for its oil in the fourth quarter of 1974, reduced prices by 50¢ per barrel on all new contracts. The government probably will be satisfied with their $12.00 per barrel selling price if 900,000 - 1,100,000 b/d of production can be maintained.

In Libya, production declines by November reached the point where revenues were not keeping up with expenditures. Libya officially cut about 65¢ off the price of government oil effective 1 January. Production is now about 1 million b/d: the high was about 3,000,000 b/d in 1972 and 2.3 million b/d in September 1973. Additional cuts on the lower quality crudes produced primarily by the National Oil Company have boosted government sales. Production from foreign oil companies -- whose costs have not been reduced -- remains at depressed levels. We think Libya would like to increase output by a few hundred thousand barrels a day.

Ecuador's production dropped from 240,000 b/d to about 80,000 b/d during 1974, because of a variety of price and non-price problems with Texaco and Gulf, the major producing companies. These problems have now largely been solved. The government also found new buyers for its state-owned oil but at substantially reduced prices. Production is expected to be near the government decreed level of about 200,000 b/d for the remainder of the year.

Indonesia, although unhappy with recent production cuts, is not expected to cut prices sharply. The price of waxy fuel oil to Japan has been lowered somewhat, and Jakarta may match the lower prices obtained by Japan recently from China. The Indonesian state oil company expects Japanese demand to turn up soon without substantial additional price cuts. In the meanwhile, it expects the foreign companies to maintain or increase production levels.

[redacted]

Director
Economic Research

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Attachment:
Annex

ANNEX

Western Companies Operating in Given OPEC Country

Abu Dhabi

[British Petroleum
ADMA [Compagnie Francaise des Petroles (CFP)
[Japan Oil Development Co. (JODCO)
Sunningdale Oils Ltd. of Canada
Amerada Hess
Nepco Eastern Production Corp.
[British Petroleum
[Royal/Dutch Shell
ADPC [Mobil
[Exxon
[CFP
[Partex
Phillips-Aminoil-Agip (ENI)
ADOC [Daikyo Oil
[Nippon Mining
[Marazen Oil
CFP

Algeria

CFP
ELF-ERAP
Francarep
Getty

Ecuador

Texaco
Gulf

Indonesia

[Standard Oil of California
CALTEX [Texaco
Union
Japex
Arco
Exxon
Mobil
Petromer Trend
Asamera
Tesoro
CFP
As. Australian
Huffington
Natomas Group

Libya

Occidental Petroleum Corp.
[Continental Oil Co.
Oasis [Marathon Oil Co.
[Amerada Hess

Mobil-Gelsenberg
Exxon
Aquitaine Group:
[ELF-ERAP
[Hispanoil
[Murphy Oil
ENI-Agip
Amoco

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